NAVFAC PACIFIC REAL ESTATE

Innovation, Leadership, & Performance
In Asset Management Solutions

Challenges, Opportunities & Strategies

for

Enhanced Use Leasing

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Honolulu, HI

What We Will Cover

- **Background**
- **Challenges**
- **Opportunities**
- **Strategies**
- **EUL Project Successes**
  - **Ford Island**
  - **Moanalua Center**
- **A Way Ahead**

Background

- **Asset Management Innovations that effect transformational infrastructure solutions in vogue– over $100M in projects already underway at NAVFAC PACIFIC with another $70-100M evolving**

- **Enhanced Use Lease Projects leverage private developer expertise and debt placement for construction, repair and improvements, and maintenance services in exchange for development rights and other entitlements to Navy Real Estate**

- **Statutory authority exists under 10 USC 2667-- Lease of Non-Excess Property**

- **Business authority resident under Real Estate Contracting Officer**

Challenges

- **Promulgated program dogma does not exist**
- **“Deal-Making 101” is more art than science**
- **Fumbled efforts can kill the momentum**
- **OMB Scoring still the “*Achilles Heel*”**
- **Risk-sharing vs. Contingent Liability a key driver**
- **Avoid direct competition with NEXCOM**
- **ATFP & other Navy constraints also can hinder**

Opportunities

- **Real Estate Markets in Navy waterfront locations continue to be HOT**
- **Most “Big Time” private sector deals are done with participating ground lease transactions**
- **Developer and Investor confidence with Navy has grown from recent Navy EUL & PPV deals in Hawaii, San Diego, & Camp Pendleton**
- **Getting more efficient facilities while reducing overall footprint and “SRM Tail” will *always* ring the bell with Navy senior leadership**
- **Beltway inertia can be favorable to the entrepreneurial mindset**
- **Shared-use or common purpose facilities are the best candidates**

Strategies

- Severable sites
- No rent nor Capital Leases
- No SRM Tail
- Title remains with Developer for Life-Cycle
- Residual Market Value in Asset
- In-Kind Defined at Lease Award
- Quiet Enjoyment Privileges vice Vested Partnership Rights
- Prudent Safeguards & Adequate Protections
- Socialize, Socialize, Socialize……

Ford Island Deal Point Summary

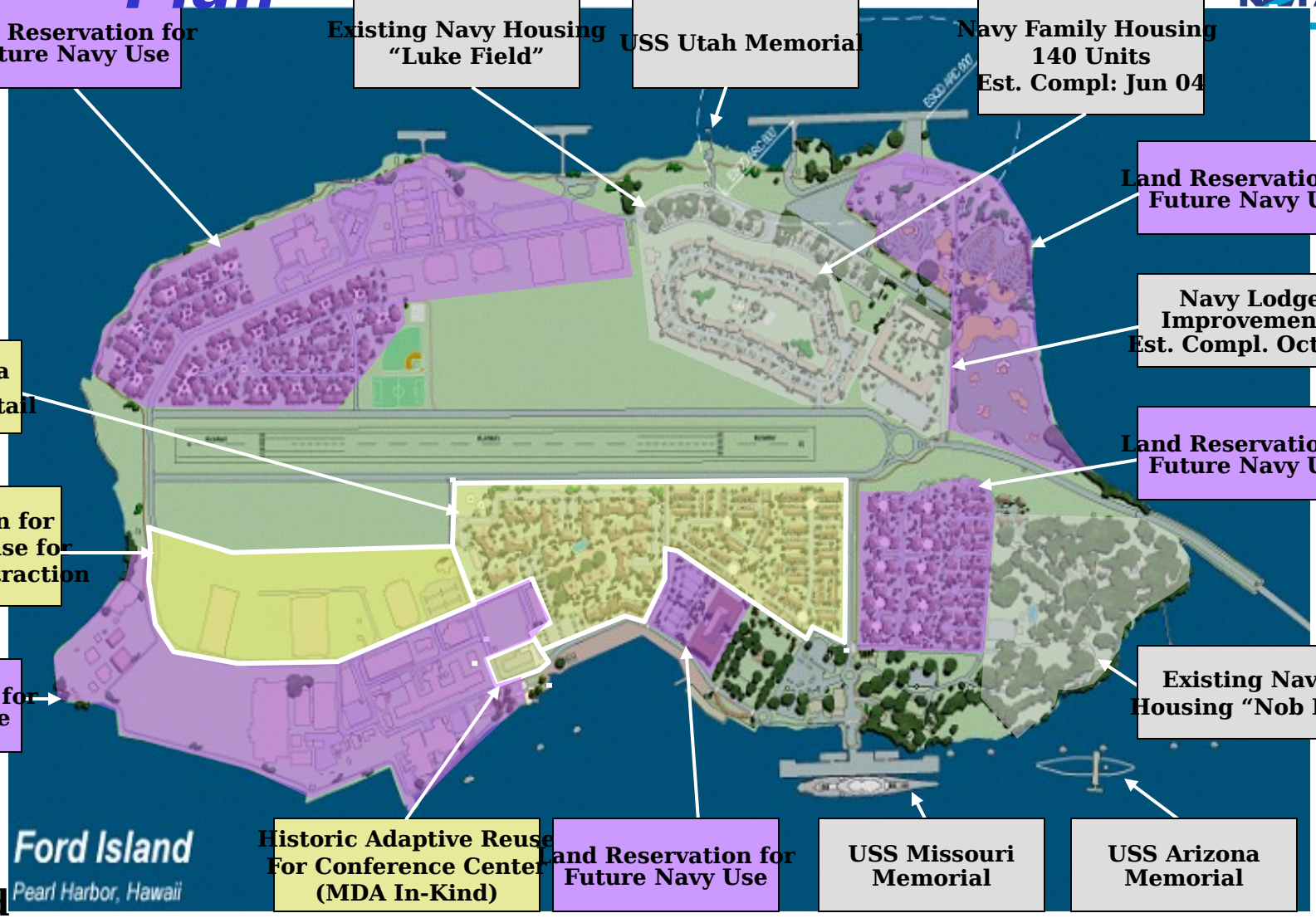
Navy's Interests Conveyed:

- **Real Estate properties**
  - **Five main areas on Oahu (over 1,600 acres)**
  - **Approx 2,010 surplus family housing units (IP/P: 1460; BP: 550)**
- **Right to market remaining Barber's Point property for the benefit of Navy**

Navy's Return:

- **FI Master Plan developed by Fluor Hawaii**
- **$84M for execution of Navy projects on FI**
- **$10M for additional Navy projects upon approval of private museum**
- **Privately financed construction on FI develops underutilized property**
- **Rental adjustments to share in upside for leased parcels' future value**
- **Fluor Hawaii to sell remaining property at BP**
  - **Navy has sole approval & decides on use of proceeds**
- **Savings from divestiture of BP & Waikele**

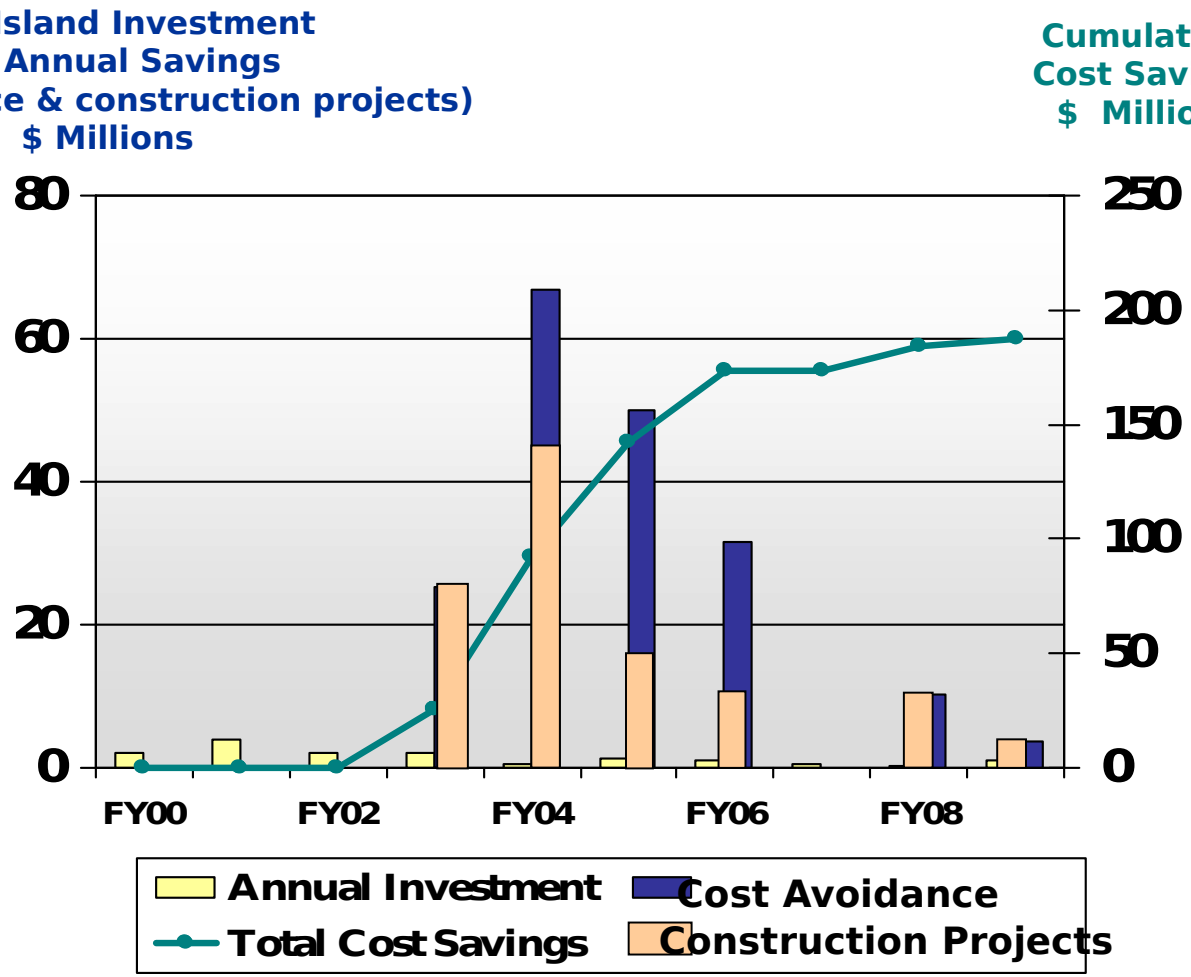
Ford Island Master Development Plan


Land Reservation for Future Navy Use
Existing Navy Housing "Luke Field"
USS Utah Memorial
Navy Family Housing 140 Units Est. Compl: Jun 04
Land Reservation for Future Navy Use
Navy Lodge Improvements Est. Compl. Oct. 03
Out-Leased area for Housing & Retail
Land Reservation for Future Navy Use
Land Reservation for Potential Out-Lease for Historic Visitor Attraction
Land Reservation for Future Navy Use
Existing Navy Housing "Nob Hill"
Historic Adaptive Reuse For Conference Center (MDA In-Kind)
Land Reservation for Future Navy Use
USS Missouri Memorial
USS Arizona Memorial
Ford Island
Pearl Harbor, Hawaii

Legend

Existing Uses Land Reservations for Future Navy Uses Master Development Agreement

Ford Island Financial Leverage



Present Value of 20 Year Net Cost Savings: $180M

Leverage Achieved: 13:1

Note: Excess property would traditionally have been disposed of via GSA with no return to the Navy

Investment in FY00-03 includes P&D costs; construction oversight included in FY03-09

Moanalua Center Overview

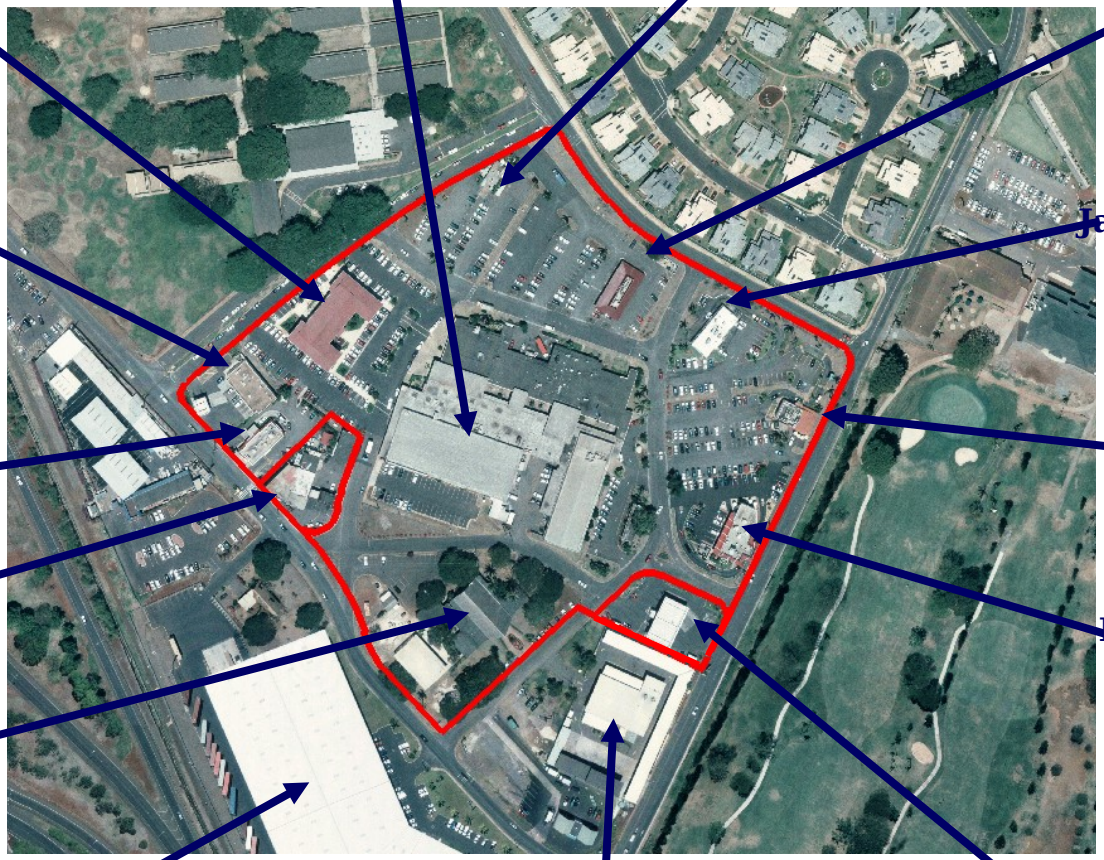
- **Leverage existing Quick-Service Restaurants (QSR) cash flow & other site development rights for 15,000 sf commercial market building and another 15,000 SF QSR**
  - **Demolition of the existing shopping center**
  - **Comprehensive site master planning**
  - **Design, finance & construction of new Navy admin space (50 KSF)**
  - **Asset management services over entire 40 year leasehold**
  - **Options for maintenance, repair & renovation work to other selected infrastructure**

- **Provides flexibility for developers to develop parcel for commercial enterprise**

- **Consolidate various support services in a central and convenient location**

- **As In-kind consideration, lessee:**
  - **Provides new DON Administrative space for up to 40 years (Base Project)**
    - Option A: Equips spaces for immediate occupation by DON
    - Option B: Provides maintenance for all facilities and spaces occupied by DON on the Leased Premises
  - **Complete Infrastructure Repairs**
  - **Provide improvements at the Navy Aloha Center**

Moanalua Center Site Plan



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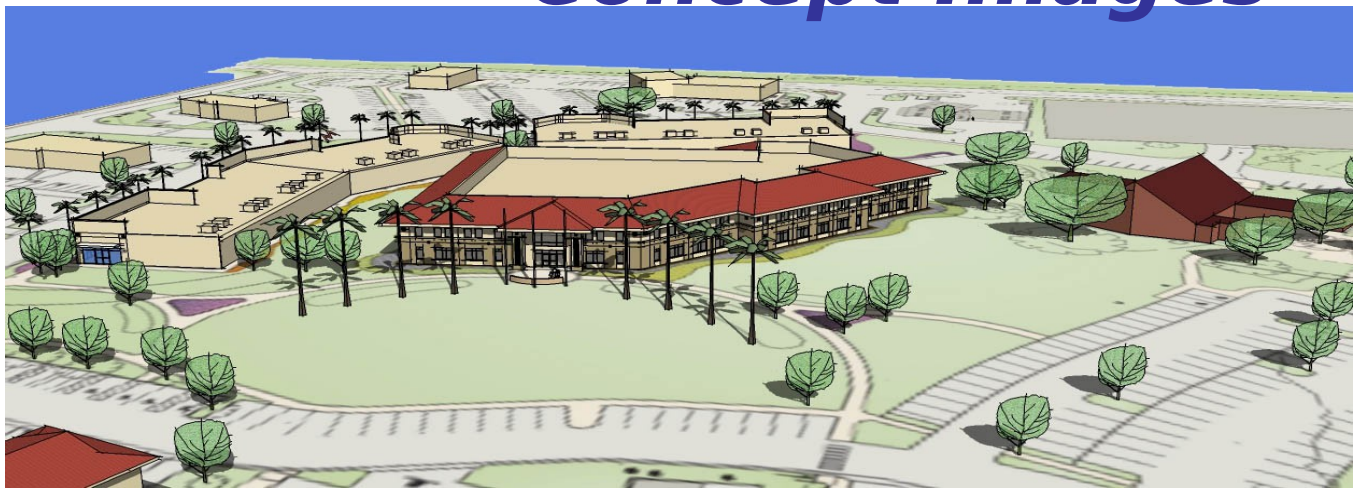
Moanalua Center Enhanced Use Lease Concept Images



View of Navy Administrative Building

View of Retail Center

Lease
Admin Building Design – Exterior Elevations

View from West (Navy Aloha Center)

View from Southwest (Bougainville)

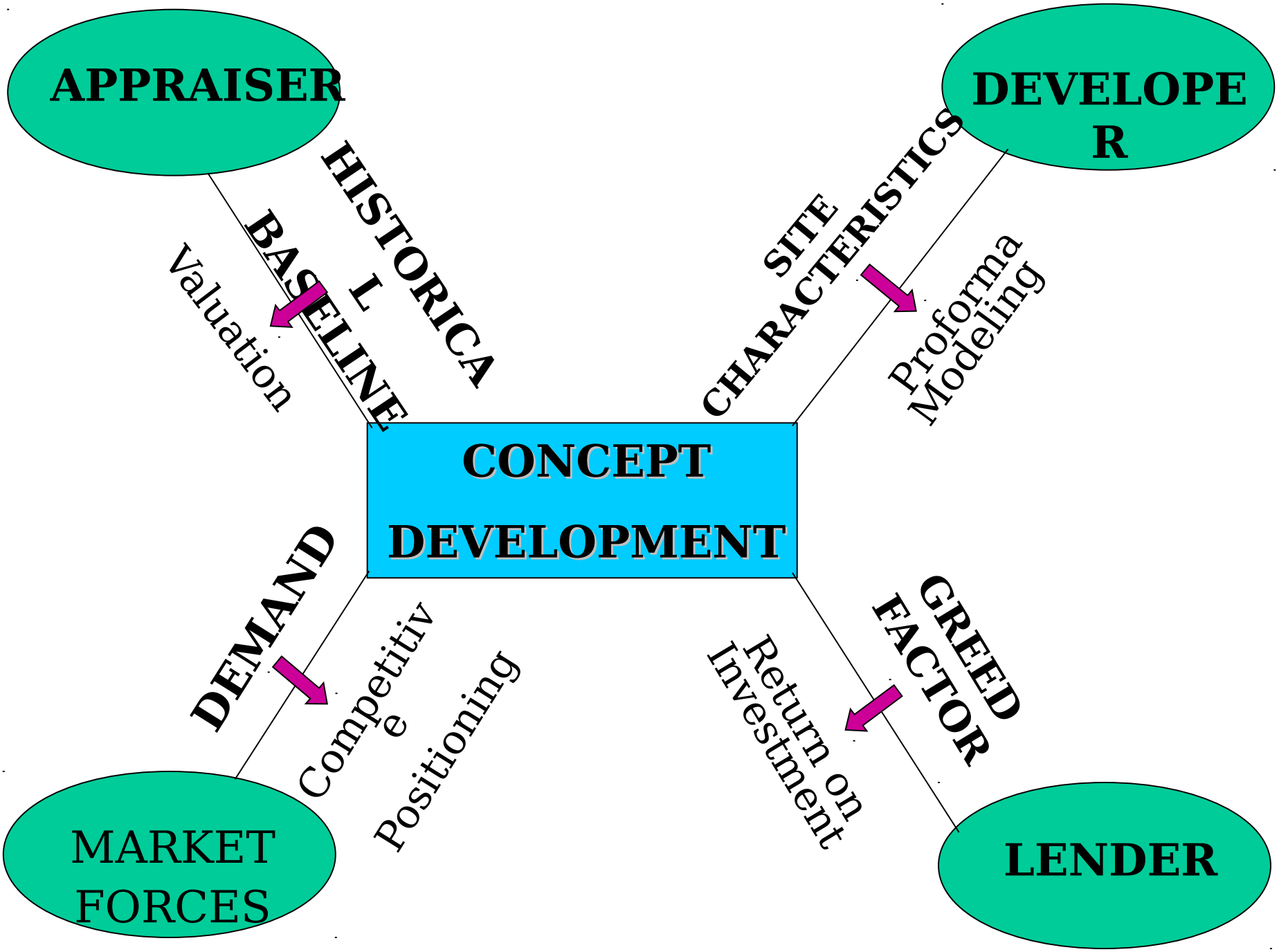
Use Lease
Retail Building Design –

View of Path to Admin Bldg of Retail Cen

View of North Wing of Retail Cen

A Way Ahead

- **Screen Regional Inventory for Potential Asset Candidates**
- **Purge the "Dogs with Fleas"**
- **Contract for market analytics with *seasoned* and *savvy* consultant only**
- **Package Concept Brief**
- **Allow flexibility for creativity and other factors to morph project parameters**
- ***Socialize, Socialize, Socialize……***


APPRAISER
DEVELOPER
HISTORICAL BASELINE
Valuation
SITE CHARACTERISTICS
Proforma Modeling
CONCEPT DEVELOPMENT
DEMAND
Competitive Positioning
GREED FACTOR
Return on Investment
MARKET FORCES
LENDER